

Message Text

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ORIGIN OPIC-12

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R 042316Z JAN 74

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O. 11652:N/A

TAGS: EFIN, BR

SUBJECT: OPIC INSURANCE RATIONING IN BRAZIL

1. SUMMARY: AS PART OF MANAGEMENT PROCEDURES TO PREVENT
UNDUE PORTFOLIO CONCENTRATION, OPIC PROPOSES TO
DISCONTINUE INSURANCE OF INVESTMENTS IN THE INDUSTRIALIZED
REGIONS OF RIO AND SAO PAULO CITIES, AND TO
PROCESS "PIPELINE" APPLICATIONS FOR INSURANCE OF
INVESTMENTS IN THESE AREAS ONLY WHERE CONTRACTS CAN BE EXECUTED
WITHIN THE NEXT SEVERAL MONTHS. OPIC REQUESTS EMBASSY'S
COMMENTS ON PROPOSED PROCEDURES AND SUGGESTIONS ON DEFINITION
OF THESE INDUSTRIALIZED AREAS.

2. IN KEEPING WITH ITS STATUTORY RESPONSIBILITY TO CONDUCT
ITS INSURANCE OPERATIONS WITH DUE REGARD TO PRINCIPLES OF RISK
MANAGEMENT, OPIC ATTEMPTS TO LIMIT ITS MAXIMUM INSURANCE
EXPOSURE IN ANY ONE COUNTRY TO 10 PERCENT OF ITS
WORLDWIDE MAXIMUM INSURANCE EXPOSURE. OPIC'S ACTUAL
EXPOSURE IN BRAZIL IS NOW IN EXCESS OF 7-1/2 PERCENT. IN VIEW
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OF THE LARGE AND GROWING VOLUME OF APPLICATIONS FOR

INSURANCE IN BRAZIL, OPIC HAS DECIDED TO INSTITUTE PROCEDURES FOR RATIONING NEW INSURANCE. AS AN INITIAL STEP, OPIC WILL HENCEFORTH ISSUE NO NEW REGISTRATIONS FOR INVESTMENTS WHOSE PRINCIPAL OPERATING FACILITIES WILL BE LOCATED IN THE INDUSTRIALIZED REGIONS OF RIO DE JANEIRO AND SAO PAULO CITIES. "PIPELINE" APPLICATIONS FOR INSURANCE OF INVESTMENTS IN THESE AREAS WILL CONTINUE TO BE PROCESSED, BUT ONLY WHERE AN APPROPRIATE HOST GOVERNMENT APPROVAL OF THE INVESTMENT FOR OPIC PURPOSES HAS BEEN RECEIVED OR IS IMMINENT. OPIC WILL DETERMINE IN EACH SUCH INSTANCE AN APPROPRIATE DEADLINE DATE BY WHICH AN INSURANCE CONTRACT MUST BE EXECUTED, TAKING INTO ACCOUNT THE INVESTOR'S EFFORTS TO COMPLETE STEPS REQUIRED TO OBTAIN AN OPIC CONTRACT. THESE DEADLINES WILL PROBABLY NOT EXTEND BEYOND APRIL 30, 1974. RATIONING OF COVERAGE WILL ALSO INVOLVE OPIC GIVING GREATER CONSIDERATION TO THE DEVELOPMENTAL IMPACT OF EACH PROJECT.

FORMAL NOTIFICATION TO INVESTORS OF OPIC'S DECISION AND A PUBLIC ANNOUNCEMENT OF THE NEW POLICY WILL BE MADE AFTER OPIC HAS MORE PRECISELY DEFINED THE GEOGRAPHIC LIMITS OF THE RIO DE JANEIRO AND SAO PAULO INDUSTRIALIZED REGIONS. OPIC'S STATEMENTS WILL EMPHASIZE THAT ITS DECISION IS BASED ON PORTFOLIO RISK MANAGEMENT CONSIDERATIONS ONLY AND NOT REPEAT NOT ON AN UNFAVORABLE ASSESSMENT OF THE INVESTMENT CLIMATE IN BRAZIL. OPIC BELIEVES THAT SHIFTING THE INCENTIVES OF ITS INSURANCE PROGRAM AWAY FROM THESE INDUSTRIALIZED AREAS WILL BE CONSONANT WITH AND SUPPORTIVE OF THE GOB'S DEVELOPMENT OBJECTIVES.

3. ACTION REQUESTED:(1) EMBASSY'S COMMENTS ON THE PROPOSED RATIONING PROCEDURES;(2) SUGGESTIONS AS TO HOW THE INDUSTRIALIZED AREAS OF RIO AND SAO PAULO CITIES SHOULD BE DEFINED GEOGRAPHICALLY; AND (3) COMMENTS CONCERNING DESIRABILITY OF INFORMING GOB REGARDING PROPOSED RATIONING PROCEDURES.
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